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VIA SEDAR+

Ontario Securities Commission
20 Queen Street West
Toronto, Ontario
M5H 3S8

Dear Sirs/Mesdames:

Re: Invesco Canada Ltd. - Passport application pursuant to Section 3.2 of National Policy 11-203 *Process for Exemptive Relief Applications in Multiple Jurisdictions* (NP 11-203) and Multilateral Instrument 11-102 *Passport System* (MI 11-102) for a decision under Section 19.1 of National Instrument 81-102 *Investment Funds* (NI 81-102).

Introduction

1. Invesco Canada Ltd. (the **Filer**) is the manager of various investment funds, including exchange-traded funds, governed by NI 81-102 (the **Existing Funds**) and, in the future, may become the manager to additional investment funds (the **Future Funds** and, together with the Existing Funds, the **Funds** and, individually, a **Fund**). A Fund may be an "alternative mutual fund" or a "non-redeemable investment fund".
2. The Filer, on its own behalf and on behalf of the Funds, is filing this Application for the exemption described below for the Funds.

Principal Regulator and Jurisdictions

3. In accordance with Part 4 of MI 11-102 and section 3.6 of NP 11-203, the Ontario Securities Commission (the **OSC**) has been selected as the principal regulator for the purposes of this Application as the head office of the Filer is located in Toronto, Ontario.
4. In accordance with subsection 4.7(2) of MI 11-102, the Filer gives notice to the OSC pursuant to paragraph 4.7(1)(c) of MI 11-102 that the relief requested in this Application is to be relied upon by the Funds in each of the other provinces and territories of Canada (together with Ontario, the **Jurisdictions**).

Exemption Sought

5. The Filer, on its own behalf and on behalf of the Funds, hereby applies for an exemption pursuant to section 19.1 of NI 81-102 from:
- (a) the restriction contained in subsection 2.1(1) of NI 81-102 to permit each Fund that is a mutual fund, other than an alternative mutual fund, to purchase a security of an issuer, enter into a specified derivative transaction or purchase index participation units (each a **Purchase**) when, immediately after the Purchase, more than 10 percent of the net asset value of the Fund would be invested in debt obligations issued or guaranteed by either the Federal National Mortgage Association (**Fannie Mae**) or the Federal Home Loan Mortgage Corporation (**Freddie Mac**); and
 - (b) the restriction contained in subsection 2.1(1.1) of NI 81-102 to permit each Fund that is an alternative mutual fund or a non-redeemable investment fund to make a Purchase when, immediately after the Purchase, more than 20 percent of the net asset value of the Fund would be invested in debt obligations issued or guaranteed by either Fannie Mae or Freddie Mac;
- (together, the **Exemption Sought**).

Defined Terms

6. Unless expressly defined herein, terms in this Application have the respective meanings given to them in National Instrument 14-101 *Definitions*, MI 11-102 and NI 81-102. In addition:

1940 Act means the U.S. *Investment Company Act of 1940*, as amended from time to time;

Fannie and Freddie Securities means debt obligations issued or guaranteed by either Fannie Mae or Freddie Mac including, without limitation, bonds, mortgage-backed securities and uniform mortgage-backed securities and **Fannie or Freddie Security** means any one such debt obligation;

Minimum Rating means a credit rating of BBB-- assigned by S&P Global Ratings Canada or an equivalent rating assigned by one or more other designated rating organizations; and

U.S. Government Equivalent Rating means a credit rating assigned by S&P Global Ratings Canada, or an equivalent rating assigned by one or more other designated rating organizations, to a Fannie or Freddie Security that is not less than the credit rating then assigned by such designated rating organization to the debt of the U.S. government of approximately the same term as the remaining term to maturity of, and denominated in the same currency as, the Fannie or Freddie Security.

U.S. means the United States of America.

Representations

7. In support of this Application, the Filer makes the representations set out below. The representations relating to the Future Funds are made as of the time the Future Funds rely on the Exemption Sought.

The Filer

8. The Filer is a corporation amalgamated under the laws of Canada, with its registered head office located in Toronto, Ontario.

9. The Filer is currently registered as:
 - (i) an adviser in the category of portfolio manager in each province of Canada;
 - (ii) an investment fund manager in Ontario, Québec and Newfoundland and Labrador;
 - (iii) a dealer in the category of: (1) mutual fund dealer in Alberta, British Columbia; Nova Scotia, Ontario, Prince Edward Island, Québec; and (2) exempt market dealer in each province of Canada; and
 - (iv) a commodity trading manager in Ontario.
10. The Filer, or an affiliate of the Filer, is or will be, the investment fund manager of each Fund.
11. The Filer or an affiliate may act as portfolio manager of the Funds or may appoint one or more portfolio managers or sub-advisors to a Fund who will provide the Filer with investment advice in respect of a Fund's investments.
12. Neither the Filer nor the Existing Funds are in default of securities legislation in any Jurisdiction.

The Funds

13. Each Fund is, or will be, an investment fund to which NI 81-102 applies, subject to any exemptions therefrom that have been, or may be, granted by the applicable securities regulatory authorities.
14. Securities of the Funds are, or will be, offered by a prospectus filed in the Jurisdictions and, accordingly, each Fund is, or will be, a reporting issuer in the Jurisdictions.
15. The investment objective of each Fund that will rely on the Exemption Sought permits, or will permit, the Fund to invest a majority of its assets in fixed income securities. The ability to invest in Fannie and Freddie Securities is, or will be, an important feature of each Fund due to the size and role of Fannie Mae and Freddie Mac in the U.S. mortgage industry.

Fannie Mae and Freddie Mac

16. Fannie Mae is a financial services corporation originally established by the U.S. Congress in 1938 to provide the U.S. federal government money to local banks to finance home mortgages during the Great Depression. Its business includes lending money by purchasing residential mortgage loans from mortgage originators which it then securitizes by issuing mortgage-backed securities. Fannie Mae also earns guarantee fees for assuming the credit risk on mortgage loans.
17. Freddie Mac is a financial services corporation that was created by the U.S. Congress in 1970 to expand the secondary market for mortgages in the U.S.. It was established to provide competition to Fannie Mae. Similar to Fannie Mae, the business of Freddie Mac includes buying mortgages in the secondary market, pooling them, and issuing mortgage-backed securities, as well as earning guarantee fees for assuming the credit risk on mortgage loans.
18. Fannie and Freddie Securities provide a substantial portion of the financing for residential mortgages in the U.S. As of June 30, 2025, Fannie Mae and Freddie Mac own or guarantee mortgage assets of approximately US\$4.1 trillion and US\$3.6 trillion, respectively¹. As of June 30, 2025, the total outstanding U.S. residential mortgage debt was estimated at US\$12.94 trillion².

¹ See the Fannie Mae Form 10-Q Quarterly Report as at June 30, 2025 and the Freddie Mac Form 10-Q Quarterly Report as at June 30, 2025

² See Federal Reserve Bank of New York, Center for Microeconomic Data – Quarterly Report on Household Debt and Credit for Q2 2025

Implied guarantee of Fannie and Freddie Securities

19. Originally, the obligations of Fannie Mae were explicitly guaranteed by the U.S. government. The explicit guarantee was removed as part of a reorganization of Fannie Mae in 1968. Like Fannie Mae, there is no explicit guarantee of the obligations of Freddie Mac by the U.S. government.
20. Notwithstanding the absence of an explicit guarantee, it is widely assumed that there is an implied guarantee of the obligations of both Fannie Mae and Freddie Mac by the U.S. government. This assumption is based on the view that Fannie Mae and Freddie Mac each are considered to be “to big to fail” due to the critical roles they play as instrumentalities of the U.S. government existing to support the liquidity of the residential real estate mortgage market. Accordingly, it is widely believed that the U.S. government implicitly guarantees the obligations of Fannie Mae and Freddie Mac³. This is reflected in Fannie and Freddie Securities currently having a U.S. Government Equivalent Rating.
21. The implied guarantee was evidenced during the 2008 financial crisis. At that time, Fannie Mae and Freddie Mac together owned or guaranteed approximately half of the U.S.’ US\$12 trillion mortgage market and were at risk of defaulting on their obligations. Such a default would have increased the cost of obtaining mortgage financing from other sources, thereby exacerbating the decline in the U.S. residential real estate market, as well as negatively impacting investors (including retirement funds and money market funds) that held Fannie and Freddie Securities. As a result, on September 7, 2008, Fannie Mae and Freddie Mac were placed into conservatorship of the U.S. Federal Housing Financing Agency in order to stabilize them. The U.S. government avoided creating an explicit guarantee of the obligations of Fannie Mae and Freddie Mac due to the negative impact it would have had on the U.S. Treasury. Fannie Mae and Freddie Mac were expressly excluded from the bail-in regime created under Title II of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act to preclude future U.S. government bail-outs of large financial companies. It is expected that a further act of the U.S. Congress would be required to remove the implied guarantee of Fannie and Freddie Securities as part of a larger reform of the U.S. residential real estate market. No such initiative currently is a priority of the U.S. Congress.

Treatment under 1940 Act and NI 81-102

22. Under the 1940 Act, an investment company registered with the U.S. Securities and Exchange Commission (the **SEC**) seeking to qualify as a “diversified company” (a **1940 Act Fund**) is required, among other matters, to invest at least 75% of its total assets in a manner whereby not more than 5% of the value of its total assets is invested in the securities of any single issuer⁴ (the **US 5% Restriction**). This restriction is analogous to the diversification requirement imposed on public investment funds in Canada by subsections 2.1(1) and 2.1(1.1) of NI 81-102. Similar to paragraph 2.1(2)(a) of NI 81-102, the 1940 Act excludes a “government security” from the US 5% Restriction.
23. The definition of “government security” in the 1940 Act differs from that contained in NI 81-102 by including any security issued by a person controlled or supervised by and acting as an instrumentality of the Government of the U.S. pursuant to authority granted by the U.S. Congress (a **U.S. government instrumentality**)⁵. Each of Fannie Mae and Freddie Mac is considered to

³ See, for example, *The Federal Government’s Implied Guarantee of Fannie Mae and Freddie Mac’s Obligations: Uncle Sam Will Pick Up the Tab*, by David Reiss (associate professor, Brooklyn Law School), July 2008, *Georgia Law Review* 42 (2008): 1019.

⁴ See the definition of “diversified company” in section 5(b)(1) of the 1940 Act.

⁵ See section 2(a)(16) of the 1940 Act.

be a U.S. government instrumentality⁶ and Fannie and Freddie Securities therefore are “government securities” under the 1940 Act⁷.

24. The definition of “government security” in NI 81-102 does not include U.S. government instrumentalities. Accordingly, the only the U.S. securities which qualify as government securities are those directly issued by, or fully and unconditionally guaranteed by, the U.S. government. Fannie and Freddie Securities do not meet this definition since their obligations are not explicitly fully and unconditionally guaranteed by the U.S. government.
25. As a result, the restrictions in subsections 2.1(1) and 2.1(1.1) apply to each investment by a Fund in Fannie and Freddie Securities.

Submissions

Fannie and Freddie Securities are important investment opportunities

26. As described above, Fannie Mae and Freddie Mac currently own or guarantee a majority of the residential mortgage assets in the U.S. Further, Fannie and Freddie Securities have the added benefit of an implied guarantee by the U.S. government, which is not provided to other issuers of bonds and mortgage-backed securities. Accordingly, Fannie and Freddie Securities represent a large, attractive and unique category of investment that cannot be replicated by any other issuer. For this reason, it is important to the Funds that they be entitled to maximize their opportunity to invest in Fannie and Freddie Securities.

Fannie and Freddie Securities are effectively “government securities”

27. Though Fannie and Freddie Securities lack an explicit full and unconditional guarantee by the U.S. government to qualify as “government securities” within the meaning of NI 81-102, they are effectively guaranteed by the U.S. government, as was evidenced during the 2008 financial crisis. The absence of an explicit guarantee is due to the impact it would have on the U.S. Treasury, rather than an unwillingness on the part of the U.S. government to guarantee the obligations of Fannie Mae and Freddie Mac.

Investments in Fannie and Freddie Securities will be prudent

28. Investments in Fannie and Freddie Securities are considered to be more prudent than investments in equivalent bonds and mortgage-backed securities of other issuers due to the implied guarantee by the U.S. government. Accordingly, if the Exemption Sought is granted, each Fund will have the opportunity to maintain a more prudent portfolio through greater exposure to securities implicitly guaranteed by the U.S. government.

The Exemption Sought will harmonize portfolio management with equivalent U.S. securities legislation

29. 1940 Act Funds are not subject to the U.S. 5% Restriction on the amount of assets they invest in Fannie and Freddie Securities since such securities qualify as “government securities” for these purposes in the 1940 Act. The current sub-advisor to the Funds seeking to rely on the Exemption Sought is the portfolio manager of 1940 Act Funds. Due to the restrictions in NI 81-102, the sub-

⁶ See, for example, the letter from Alan Rosenblat, Chief Counsel, Division of Corporate Regulation, SEC, to John W.S. Littleton, Director, Income Tax Division, Internal Revenue Service (Apr. 6, 1971) (“[Fannie Mae] is a person supervised by and acting as an instrumentality of the government of the United States within the meaning of the Investment Company Act of 1940.”); and the no-action letter dated June 23, 1971 issued by the SEC which confirmed that Freddie Mac is a U.S. government instrumentality and its securities meet the definition of “government security” in section 2(a)(16) of the 1940 Act.

⁷ See, for example, “Removal of Certain References to Credit Ratings Under the Investment Company Act”, SEC Rel. No. IC-30847, 79 Fed. Reg. 1316 (January 8, 2014) at n.28 (“Government securities [as defined in 1940 Act Section 2(a)(16)] include, for example, securities issued by the Federal Home Loan Mortgage Company (“Freddie Mac”), Federal National Mortgage Association (“Fannie Mae”), and Government National Mortgage Association (“Ginnie Mae”).”).

advisor has, on occasion, been unable to purchase the quantum of Fannie and Freddie Securities in the Funds that it has purchased for the 1940 Act Funds. It is, in the sub-advisor's opinion, desirable that the Funds be permitted to invest in Fannie and Freddie Securities to the same degree and proportion as the 1940 Act Funds.

Monitoring of changes to Fannie and Freddie Securities

30. The Filer intends, either directly or through portfolio managers or sub-advisors, to research and monitor the investment attributes and trading operations for Fannie and Freddie Securities. Such ongoing research and monitoring will include monitoring proposals to restructure the U.S. residential housing market that may impact the implied guarantee of Fannie and Freddie Securities by the U.S. government. If the U.S. Congress proposes legislation to change or remove the implied guarantee and the Filer determines in its judgement that, as a result of the announced proposed legislation, there is a significant risk that the Fannie and Freddie Securities held by the Funds could cease to have a U.S. Government Equivalent Rating or their credit ratings could decline below a Minimum Rating, the Funds will take steps that are reasonably required to dispose of their Fannie and Freddie Securities in an orderly and timely fashion such that the Fannie and Freddie Securities held by the Funds comply with subsections 2.1(1) and 2.1(1.1) of NI 81-102.

Proposed Conditions

31. The Filer proposes that the Exemption Sought be granted so long as:
- (a) at the time of Purchase, the Fannie or Freddie Security has a U.S. Government Equivalent Rating and a rating not less than the Minimum Rating;
 - (b) the prospectus or simplified prospectus of each Fund that is a mutual fund distributing its securities, the prospectus of each Fund that is a non-redeemable investment fund distributing its securities, and the annual information form of each Fund that is not distributing its securities:
 - (i) discloses that the Fund has received permission to invest more than 10% (or, in the case of an alternative mutual fund or a non-redeemable investment fund, 20%) of its net assets in each of Fannie Mae and Freddie Mac provided the Fannie and Freddie Securities maintain a U.S. Government Equivalent Rating and a rating not less than the Minimum Rating;
 - (ii) discloses (in the case of a prospectus or simplified prospectus, under the heading or sub-heading "Investment Strategies") the maximum amount the Fund may invest in Fannie and Freddie Securities; and
 - (iii) contains risk factors that:
 - (A) the U.S. government may not guarantee payment of Fannie and Freddie Securities; and
 - (B) describe the risks associated with the Fund investing more than 10% (or, in the case of an alternative mutual fund or a non-redeemable investment fund, 20%) of its net assets in each of Fannie or Freddie Securities,

provided that in the case of a Fund that is a mutual fund currently distributing its securities, the information required by this condition (b) may instead be included in the prospectus or simplified prospectus of the Fund when it is next renewed or amended;

- (c) if the rating of a Fannie or Freddie Security held by a Fund ceases to have a U.S. Government Equivalent Rating or declines below the Minimum Rating, the Fund will take the steps that are reasonably required to dispose of such Fannie or Freddie Security in an orderly and timely fashion such that the Fannie and Freddie Securities held by the Fund comply with subsection 2.1(1) and 2.1(1.1) of NI 81-102; and
- (d) if the U.S. Congress:
 - (i) proposes legislation intended to change or remove the implied guarantee by the U.S. government of Fannie Mae and/or Freddie Mac and the Filer determines in its judgement that, as a result of the announced proposed legislation, there is a significant risk that the Fannie and/or Freddie Securities held by the Funds could cease to have a U.S. Government Equivalent Rating or their credit ratings could decline below the Minimum Rating; or
 - (ii) enacts legislation that:
 - (A) removes the implied guarantee by the U.S. government of Fannie Mae and/or Freddie Mac; or
 - (B) specifies a future effective date on which the implied guarantee by the U.S. government of Fannie Mae and/or Freddie Mac will end,

the Funds will take the steps that are reasonably required to dispose of such Fannie and/or Freddie Securities in an orderly and timely fashion such that the Fannie and/or Freddie Securities held by the Funds comply with subsection 2.1(1) of NI 81-102 and/or 2.1(1.1) of NI 81-102, as applicable.

Precedent Relief

32. Similar relief was granted in *Manulife Investment Management Limited* (December 18, 2023), *SLGI Asset Management Inc.* (September 11, 2023) and *Canoe Financial LP* (July 5, 2023).

Enclosures and Fees

In support of this application, we have included a draft decision document granting the Exemption Sought.

Should you have any questions or require any further information, please do not hesitate to contact Caroline Mingfok at 416-228-5770.

Yours very truly,

(signed) "Caroline Mingfok"

Caroline Mingfok
VP, Legal & Associate General Counsel
Invesco Canada Ltd.